

TRANSMITTAL SLIP	DATE 19 Mar 82
TO: NIO/USSR-EE	

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TO: Andy Marshall, D/Net Assessment		
ROOM NO. 3A930	BUILDING Pentagon	
REMARKS:		
FYI		
FROM: Harry Rowen, C/NIC		
ROOM NO. 7E62	BUILDING Hqs./CIA	

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**CENTRAL INTELLIGENCE AGENCY**  
WASHINGTON, D.C. 20505

18 March 1982

MEMORANDUM FOR: Mr. Harry Rowen, Chairman  
National Intelligence Council

FROM: [REDACTED]  
Director of Soviet Analysis

25X1

SUBJECT: Comments on Steven Rosefielde's Letter to Andy Marshall, OSD/NA

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[REDACTED] We feel obligated to give Steve Rosefielde's letter to Andy Marshall a careful review because Rosefielde is one of our more vocal critics. We have had a continuing dialogue with Steve and, as his letter notes, he was one of the academics invited to attend the SOVA-sponsored conference on price change in the USSR. Unfortunately, this dialogue does not seem to be bearing fruit. He does not absorb the descriptions and explanations of our methodology that we have given him and his criticisms (he has done no original work on this subject) are almost always ill-founded. The present letter is a case in point. It contains both a misunderstanding of the present direction of CIA research on this subject and some shoddy statistical analysis on his part.

2. Rosefielde's letter clearly distorts the current status of SOVA analysis. As he points out, a change in our Soviet defense burden estimate from the current 12 to 14 percent of GNP to 20 percent would have a strong impact on our assessment of Moscow's commitment to the military even though the underlying estimates of military forces would not have changed. He is completely incorrect, however, in asserting that we believe such a change is about to occur.

3. SOVA is beginning a research program that will allow us to calculate the Soviet defense burden using a price base updated from 1970 to 1982 ruble prices. Because the task is a difficult one, we will not have even preliminary revised estimates available until late 1983 at the very earliest. If prices in the defense sector have changed in a radically different fashion from those in the rest of the economy, it is possible that our 12-14 percent burden estimate will change. Given the limited nature of the 1982 Soviet price reform and the confidence we have in our present methodology, we regard a 20 percent burden figure as an extremely unlikely final result.

4. The second problem with Rosefielde's analysis is related to his misunderstanding of Soviet statistics that leads to his high burden estimate. Rosefielde produces a rough 1980 Soviet GNP estimate in 1980 prices (the

denominator of the burden calculation) by moving an old CIA estimate for 1970 with official Soviet growth indexes. Implicit in these indexes is the inaccurate Soviet notion of the rate of price change. Official Soviet price indexes show prices actually falling from 1970 to 1980 so that Rosefielde's 1980 GNP is less in current prices than in 1970 prices. As was emphasized by all major experts present at the SOVA price conference Rosefielde attended, no Western expert believes these price indexes--no one believes that the average price level in the USSR is really falling. Rosefielde's 1980 GNP calculation is understated by not recognizing the bias in the official Soviet data. (Soviet official growth estimates, high in comparison to Western estimates of Soviet growth, somewhat offset this bias.)

5. More importantly, his estimate of defense costs in 1980 prices (the numerator in the defense calculation) is overstated. He applies a 4 percent real growth rate to our 1970 estimate and adds an arbitrary 4 percent each year for inflation. Although we have no accurate measure of the rate of inflation in the Soviet defense sector, the 4 percent annual rate is probably too high since he applies it to total Soviet defense costs--personnel, operations and maintenance, construction, and RDT&E--not just procurement. Information available to analysts inside and outside the CIA suggests that price inflation should affect other components of defense costs less than procurement. As a consequence, Rosefielde's 20 percent estimate of Soviet defense burden in 1980 is upward biased by both an overestimate of his defense figure and an underestimate of his GNP figure.

6. The problems with Rosefielde's analysis are not new ones. Don Burton, a member of Andy Marshall's staff, is now under contract to develop a thorough review of our methodology and the outside analysis critical of it. Don's project should help clarify the issues for all of us, including Steve Rosefielde.



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